



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.08

Required Report - public distribution

Date: 11/15/2004

GAIN Report Number: JM4006

Jamaica & Dep Retail Food Sector Annual 2004

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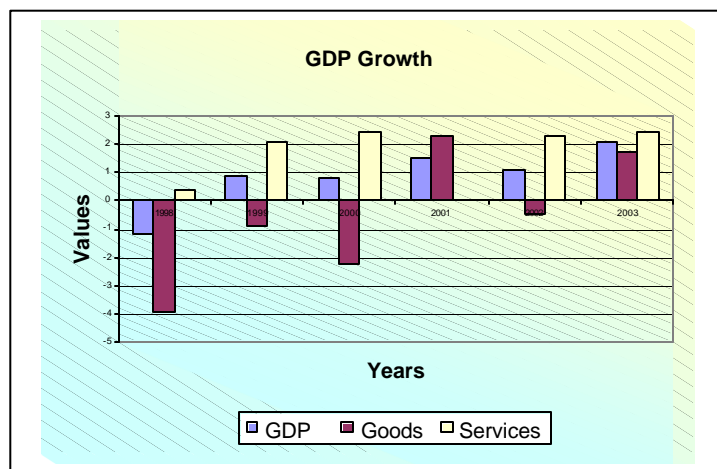
Report Highlights:

This is an update on the Jamaican Food Retail Market.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Kingston [JM1]
[JM]

I. Market Overview

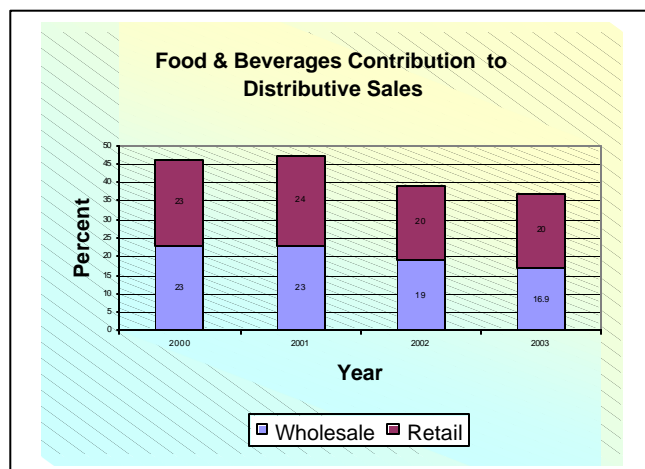
Over the last four years, the Jamaican economy experienced annual growth between one and two percent. Although insufficient, in magnitude, to create immediate visible consumption impacts, the sustained growth over the period harbingers a recovery from the economic turmoil of the financial sector crisis of the mid to late 1990's. The recent IMF country report, which endorsed a positive medium-term economic outlook for Jamaica, coupled with Central Government's fiscal adjustment policies have bolstered investors' confidence in the economy, and established a platform for accelerated economic growth. In fact, Foreign Direct Investment inflows into Jamaica during 2003 jumped by almost 50 percent, more than four times the average annual inflows of the last five years.



Since the early 1980's the economic performance has been disproportionately represented by the services sector, particularly distribution, tourism, transportation and communication. The services sector will remain the impetus to Jamaica's economic activities, as private investments and public policies continue to be skewed in that direction.

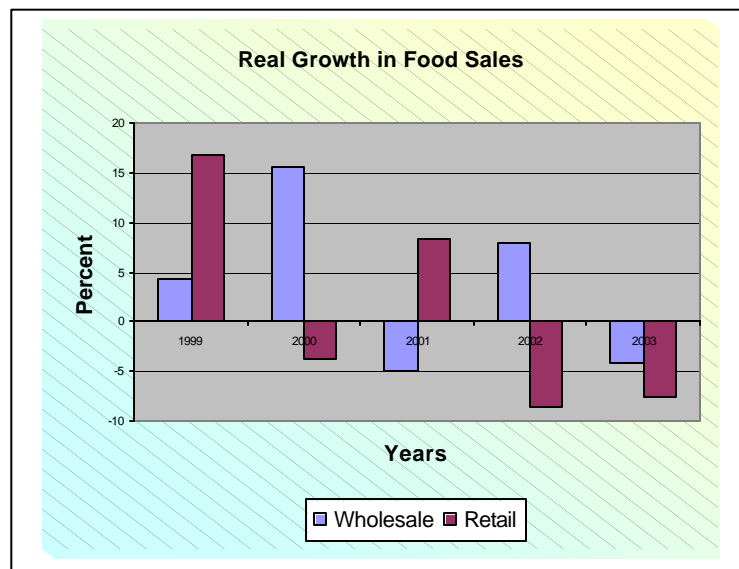
(See report number JM4005 for additional information on macroeconomic influences on consumption)

In terms of contribution to GDP, distributive trade is the single largest sub-sector of the Jamaica economy, accounting for approximately 20 percent of total output, and more than 31 percent of output in the services sector. Over the last five years, the relative importance of distributive trade to GDP has remained almost perfectly constant, varying inappreciable by less than one percentage point per year.



Notwithstanding significant declines over the last three years, food and beverages collectively contribute the largest proportion of annual wholesale and retail sales in the distributive sector. The steep decline in the share of food and beverages to total distributive sales from 47 percent during 2001 to a mere 36.9 percent during 2003 was particularly influenced by the disproportionate six-percentage-point slip in the contribution of sales by food wholesalers. The increasing buoyancy in the information/telecommunication sector and the attendant retail demand for such products has swiftly altered the pattern of

retail sales over the last five years. Although the decline in the contribution of food and beverages to total distributive sales will continue over the short-term, absolute sales values should, at least, remain constant over the period.



Food and beverage sales by wholesalers and retailers have shown much volatility over the last five years, with a characteristic strong negative correlation (-0.79) between wholesale and retail sales. Over the period, wholesalers have outperformed retailers, with the share of food and beverage sales by wholesalers increasing by 7 percentage points to 46 percent. Similarly, real sales value by wholesalers increased by an average annual 3.4 percent over the period compared with an anemic 1.6 percent increase in real sales by retailers. Following the present pattern of sales in the

distributive sector, the share of food and beverage sales by both segments of the market should be about equal by 2006. However, the aggressive repositioning of major local supermarket chains, the entry of price competitive club stores, and wholesale packaging by retailers could slow the pace of retailer market erosion or reverse the trend.

Modest economic growth, increasing remittances from abroad and increases in personal consumption credits have contributed to the performance of the retail food sector. These factors are expected to continue fueling modest growth in the sector over the medium-term. There are approximately 1,486 retail and 162 wholesale outlets in the Jamaican food and beverage distributive sub-sector, collectively accounting for a total sale, in current prices, of approximately US\$893 million during 2003.

Businesses within the Jamaican retail food sector are differentiated on the bases of service, quality, price and convenience, giving rise to a retail sector structurally composed of upscale and conventional chain and independent supermarkets, wholesalers, independent grocers, small convenience stores (mini-marts) and gas marts. Supermarkets and wholesalers collectively account for approximately 71 percent of total food and beverage sales in the Jamaican retail food sector. Gas marts, the most recent addition to the Jamaican retail food sector, carry a limited number of snack products, pastries, dairy products, juices, drinks and other ready-to-eat products. They account for only a minuscule portion of total sales in the food retail market. Small independent grocers are mostly located in rural towns and less attractive segments of urban areas.

The Jamaican retail food sector has experienced significant structural changes over the last five years, resulting primarily from domestic competition, macroeconomic constraints, changing consumer lifestyles and adoption of new technologies. The main changes in the sector are:

- i. The increasing direct importation by wholesalers and large independent and chain supermarkets.
- ii. The forming of strategic alliances among local food retailers and between local and foreign retail chains.
- iii. Large supermarket chains are differentiating and positioning according to consumer lifestyle and purchasing power.

- iv. The adding of complementary strategic business units (SBUs) to core food retail operations.
- v. Application of electronic payment and inventory management systems.
- vi. The entry of club store and hypermarket concepts to the distribution landscape.
- vii. Increasing involvement of distributors in the retail sector
- viii. Private labeling by major supermarket chains

Large and medium supermarkets and wholesalers have started aggressive direct importation to avoid the distributor's margin and offer more price-competitive products in the price-sensitive Jamaican consumer market. Brand recognition has become secondary to perceived value (price-quality relationship) in the majority of Jamaican consumers buying decisions. Adherence to international food safety standards is also gaining importance in purchase decisions. To remain competitive, most retail outlets are offering products at wholesale prices to increase volume. To protect market share, wholesalers have retaliated by targeting end (retail) consumers, blurring the distinction between retail and wholesale operations. The entry of PriceSmart into the Jamaican retail market with its 50,000 square-foot superstore and the expansion of its main rival (MegMart) have contributed to the increased price competition in the retail market. Further, as the realities of adjustments in the macro and microeconomic environments are felt at the household level, Jamaican consumers are expected to modify their consumption and buying behaviors. Most analyses of food and beverage consumption in Jamaica concurred on the increasing emphasis on "value" purchase.

Faced with heavy competition and increasing economies of scale within the retail market, independent supermarkets are either collaborating to promote, procure and improve management, or are expanding the number and size of stores in order to remain competitive. Supermarkets are expanding into rural towns and previously "unserved" geographic segments of the corporate and resort areas. Seven of Jamaica's independent supermarkets, with a complement of fourteen stores, have formed alliance to strengthen their competitive position in the retail food sector - particularly to compete with the largest and rapidly expanding supermarket chains, HiLo and SuperPlus Food Stores. The larger and more aggressive supermarket chains have commenced the inevitable takeover of small independent stores, which either lack the capacity to merger, or to independently withstand further competition.

Larger supermarkets are adding independent strategic business units to their core food retail operations to either diversify their business portfolio, retain/increase customer base, or offer improved customer service and convenience. Several supermarkets have included one or more of the following: clothing, gift shops, restaurants, delicatessens, bakeries and pharmacies as part of their retail operations. Electronic bill payment and money transfer outlets, and automatic banking machines are strategically located adjacent to or inside supermarkets. The recently computerized Jamaican postal service is seeking alliance with supermarkets to include mailing services as part of regular supermarket augmentations. Almost all supermarkets and convenience stores in Jamaica offer electronic payment services through the electronic "multi-link" banking network. The major supermarket chains and gas marts are equipped with bar code reading devices to improve inventory management and efficiency. Automated "reordering" systems that links retail databases to suppliers are likely to be implemented in the short-term, as distributors become more active in relationship marketing. The advantages once enjoyed by retailers through credit card purchases are quickly disappearing, as more wholesalers are installing electronic payment systems.

Jamaican supermarket chains are increasingly interested in forming alliances with foreign retail chains. Two of Jamaica's largest retail chains have formed alliances with Lablows, Canada's largest food retail chain, and Tesco from the United Kingdom, for the exclusive

distribution of a number of brands, such as President's Choice, No Name and Too Good To Be True. PriceSmart has entered the Jamaican market in partnership with the proprietors of a major U.S. fast food franchise. Other supermarkets have expressed interest in alliance with U.S. food retail stores.

Ongoing liberalization in the domestic economy, the maintenance of a relatively stable exchange rate and domestic supply shocks have encouraged many firms in the food and beverage retail sector to increase the imported content of their aggregate merchandise, including; fresh fruits and vegetables, grocery products, meats and processed products.

Some of the advantages and challenges facing U.S. products in the Jamaican market are summarized below.

Advantages	Challenges
<p>The proliferation of internet and cable television has increased the impact (in the Jamaican market) of U.S. product advertised through these media.</p> <p>Changing Jamaican consumer lifestyles have created demand for ready-to-eat products that are not readily available from domestic production.</p> <p>Increased direct importation by wholesalers and large chain supermarkets creates the opportunity for alliances between U.S. and Jamaican retail chains.</p> <p>Jamaica's relatively sophisticated retail system is equipped to effectively handle frozen, processed, ready-to-eat, and other highly perishable products.</p> <p>Ongoing modernization of Jamaica Customs Department and upgrading of the food regulatory system will increase market access for U.S. high-value products in the medium-term.</p>	<p>Eroding consumer disposable income and a relatively stagnant retail sector restrict demand for high-value imported specialty products.</p> <p>Onerous sanitary and phytosanitary, labeling and other standards, frustrate the importation of food products.</p> <p>High import duties and inefficient customs procedures reduce the price competitiveness of some imported products.</p> <p>Duty free entry of grocery products from other CARICOM countries and low-priced products from Europe and Canada are eroding U.S. market share.</p> <p>Strategic alliances between Jamaican outlets and European and Canadian retail firms, bolstered Canada and Europe's position in the Jamaican retail food market.</p>

II. ROAD MAP FOR MARKET ENTRY

A. SUPERMARKETS

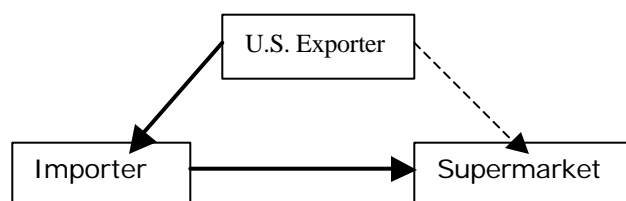
Entry Strategy

Despite increasing direct importation by medium and large supermarket chains, the best way to enter the Jamaican retail market is still through a local distributor. Most supermarkets lack adequate storage facilities to handle high-volume purchases and typically purchase lower volumes at more frequent intervals. The relative proportion of direct imports to total imported merchandise in supermarkets is less than ten percent. In addition, no single

supermarket chain captures more than a 15 percent share of Jamaica's retail food market. To gain maximum penetration of the overall retail market it is best to use a local distributor. Exclusive distributorship arrangements and collaborative product promotion can give U.S. products a distinct advantage in the Jamaican retail food sector.

There is also the opportunity for U.S. retail chains with branded products to form alliances with Jamaican supermarkets. Stringent sanitary/phytosanitary and other regulations which frequently frustrate the import process should gradually be reduced by the Government's thrust to modernize and improve efficiency in its food safety and inspection system. This will encourage more supermarkets and wholesalers to engage in direct importation.

Market Structure



The structure of Jamaica's retail food sector is relatively simple. Supermarkets procure majority of merchandise (approximately 97 percent of imports) from local import distributors. Domestic products are sourced from local food processors and independent farmers. Importers of fresh produce and grocery products also supply local, and private labeled products. Supermarkets typically do not procure products from wholesalers.

Company profile: Supermarkets

Retail name and Outlet Type	Ownership	Sales	No. of Outlets	Locations (City / Region)	Purchasing Agent Type
Progressive Grocers	Jamaican	N/A	14	Kingston, Montego Bay, Mandeville	Direct, Importer
HiLo Food Stores	Jamaican	N/A	10	Kingston, Mandeville, Montego Bay	Direct, Importer
Lee's Food Fair	Jamaican	N/A	3	Kingston	Importer
Family Pride	Jamaican	N/A	1	Kingston	Direct, Importer
SuperPlus Food stores	Jamaican	N/A	30	Island wide	Direct Importer

B. CONVENIENCE STORES. GAS MARTS, KIOSKS

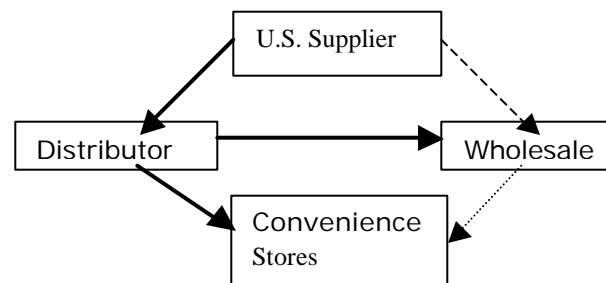
In the Jamaican retail sector, gas marts and mini-marts function as convenience stores, retaining their position by virtue of location and time of operation.

Entry Strategy

The best way to introduce products to convenience stores, including gas marts, is through a local distributor. Logistical procedures and purchase volume preclude convenience stores from engaging in direct importation.

Market Structure

Gas marts are located in Esso, Shell, Total and Texaco service stations in corporate and resort areas, rural towns and along highways. They stock an array of snack foods, dairy products, pizza, juices and drinks, and other ready-to-eat products. They operate on a 24-hours basis and are equipped with barcode reading devices and electronic payment systems, consistent with their service differentiation. Mini-marts are typically located in close proximity to middle income residential neighborhoods. They operate very late hours and on public holidays. They know their customers very well, build individual relationships and offer friendly, personalized service, e.g., telephone orders and home delivery. Mini-marts stock a wide array of products in very small quantities. With the exception of gas marts, convenience stores do not operate as chains. Convenience stores procure products from large distributors, informal commercial importers and, to a lesser extent, large wholesalers. Convenience stores account for approximately two percent of total retail sales.



Company Profile: Convenience stores

Name of Retailer	Ownership	Sales	No. of Outlets	Locations	Purchasing agent
Esso Tiger Markets	Local	N/A	7	Island wide	Distributor
Texaco Star Marts	Local	N/A	15	Island wide	Distributor
Shell Gas Mart	Local	N/A	4	Island wide	Distributor
Vanda's	Local	N/A	1	Kingston	Distributor
Daley Mini-mart	Local	N/A	1	Westmoreland	Distributor / Wholesaler

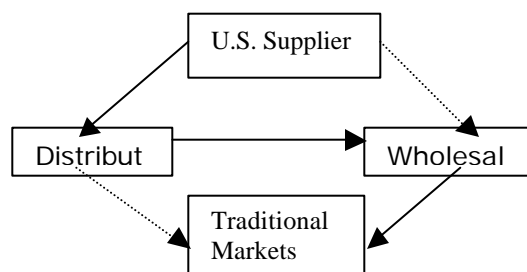
C. TRADITIONAL MARKETS - "MOM AND POP" SMALL INDEPENDENT GROCERY STORES AND WET MARKETS

Entry Strategy

As with supermarkets and convenience stores, new products are best introduced to independent grocery stores through a local distributor. While local importing wholesalers and informal commercial importers (ICI's) supply most of the traditional market segment, individual wholesalers and ICI's lack the necessary distribution networks and storage capacity to effectively serve a wide cross section of the market. In addition, wholesalers are not involved in building brand identity and loyalty. Small independent grocers typically make bulk purchases from wholesalers who in turn pull the demand from local distributors and exporters. Conversely, established distributors are inclined to build brand image/loyalty among end consumer and facilitate pulling-pushing demand through the retail chain.

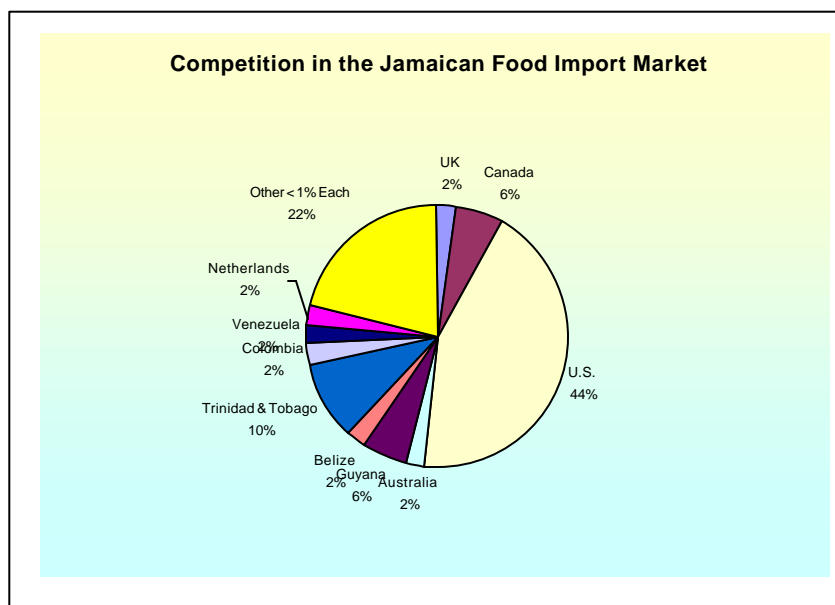
Market structure

The market structure for the traditional markets segment (small independent grocers) is identical to that of convenience stores, except that the proportion of merchandise procured from, and relationship with, wholesalers is much greater. Small independent groceries, which operate mostly in rural areas and socially unstable sections of the corporate areas (Kingston, St. Andrew and St. Catherine), have been the hardest hit by changes in the retail sectors. As competition intensifies in the retail food sector, large supermarket chains continue to expand into rural towns and other "unserved" geographical areas eroding the market share of independent grocers. In addition, as Jamaican consumers continue to demand better service, rely on consumption credits and remittances, small independent groceries, which typically does not have alliance with remittance companies and lack the capacity to use electronic payment systems, will continue to lose market share to supermarkets, becoming less relevant in the retail food sector. The traditional system is expected to be substantially displaced by supermarkets in the medium to long-term.



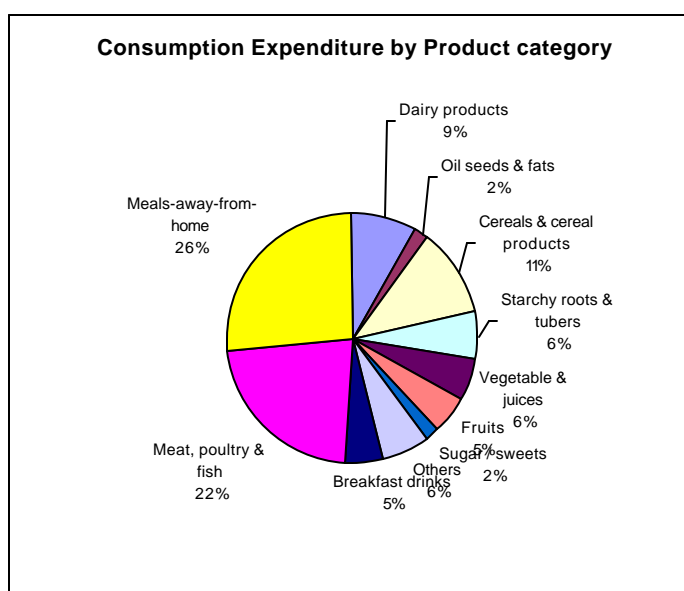
III. COMPETITION

Despite increasing competition from CARICOM, European, and Asian countries, the United States is the market leader in food and beverage exports to Jamaica, followed in the distance by Trinidad and Tobago, Guyana and Canada.



IV. BEST PRODUCTS PROSPECTS

The Jamaican food retail sector presents good marketing opportunities for U.S. meat products, including mutton and seafood; breakfast cereals and cereal products; juices and drinks; fruits and vegetables; vegetable oils; snack foods, bakery products, frozen products including French fries and other ready-to-eat products such as pizzas, hamburgers and soups, wines, dairy products, health foods (including soy products and nutritional supplements).



Products Not Present because they Face Significant Barriers

The presence of Pseudorabies in the U.S. prohibits the entry of U.S. pork products into Jamaica unless they are hermetically sealed. Apart from products that require sanitary / phytosanitary permits, there are no barriers to the Jamaican market. However, high import duties (as high as 260%) render some products uncompetitive in the market.

V. POST CONTACT AND FURTHER INFORMATION

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